

State Revolving Loan Fund

Drinking Water

SRF

**South Carolina's
Priority Ranking
System for
DWSRF Projects**

**May 2003
Final**



Table of Contents

I.	Introduction.....	1
II.	Eligible Project Sponsors	1
III.	Eligible Projects	2
	A. Compliance and Public Health.....	2
	B. Land acquisition.....	2
	C. Planning and design of a drinking water project	3
	D. Phasing of a drinking water project	3
	E. Restructuring of systems that are in noncompliance or that lack the technical, managerial and financial capability to maintain the system	3
IV.	Projects Not Eligible for Funding.....	3
	A. Lack of technical, managerial and financial capability	4
	B. Significant noncompliance.....	4
	C. Growth	4
V.	Identifying and Ranking Drinking Water Priorities	4
	A. Priority Categories	5
	1. Category # 1	5
	2. Category # 2.....	5
	3. Category # 3.....	5
	4. Category # 4.....	5
	5. Category # 5.....	6
	6. Category # 6.....	6
	7. Category # 7.....	6
	8. Category # 8.....	6
	9. Category # 9.....	6
	B. Regionalization/Consolidation.....	6
	C. Affordability	7
	D. Small Community Bonus.....	7
VI.	Summary of Points System Used to Establish Project Priority Ranking	8
VII.	Developing and Updating the State’s Comprehensive Priority List of Projects.....	8
VIII.	Selecting Projects for Funding.....	8

I. Introduction

The federal Safe Drinking Water Act (SDWA) amendments of 1996 authorized a Drinking Water State Revolving Fund (DWSRF) to assist public water systems to finance the cost of infrastructure needed to achieve or maintain compliance with the SDWA. Section 1452 of the SDWA authorizes the Administrator of the US Environmental Protection Agency (EPA) to award capitalization grants to states for the purpose of establishing a low interest loan program and other types of assistance to eligible water systems. The South Carolina Department of Health and Environmental Control (DHEC) has primary enforcement responsibility (i.e., primacy) for carrying out the provisions of the SDWA. DHEC is the designated state agency to apply for and administer the capitalization grant for the DWSRF. The State Budget and Control Board (BCB), Office of Local Government, conducts the financial functions of the DWSRF and make loans to project sponsors.

Section 1452 also requires that the State develop a [*comprehensive priority list*](#) (See Section V. below) of potential infrastructure projects to be funded from the Drinking Water State Revolving Fund (DWSRF), as well as a system that ranks the projects in an order commensurate with the goals of the program. The program is required, to the maximum extent practicable, to give priority for use of the DWSRF to projects that:

- Address the most serious risk to human health;
- Are necessary to ensure compliance with the requirements of the Safe Drinking Water Act; and,
- Assist systems most in need on a per-household basis according to state affordability criteria.

The State maintains an initiative to encourage and facilitate the consolidation or regionalization of public water systems. This initiative, in concert with state regulatory programs, also promotes compliance with the SDWA. In addition, effective with this new ranking system, the State will assign enhanced priority consideration to small community DWSRF projects.

At the inception of the DWSRF in South Carolina, the project ranking system was developed as part of the Intended Use Plan (IUP), a document that annually accompanies the program's request for the SRF capitalization grant (See Section VII below). Accordingly, up through fiscal year 2002, IUPs have included the details of the ranking system. Beginning with FY 2003, to bring DWSRF ranking procedures somewhat into parallel with those of the Clean Water SRF, this Drinking Water Priority Ranking System will be maintained as a separately standing document, and IUPs will no longer discuss details of the project ranking system. In addition, the DW ranking will be switched to an additive numerical system, a methodology that will not disturb the system's essential basis on the priority ranking concepts stated in the preceding paragraph.

II. Eligible Project Sponsors

An eligible DWSRF project sponsor means a county, municipality, special purpose district, commissioners of public works, or nonprofit corporation established under Title 33, Chapter 36 of the Code of Laws of South Carolina.

III. Eligible Projects

A. Compliance and Public Health

According to Section 1452(a)(2) of the SDWA, the DWSRF may only provide assistance for expenditures (not including monitoring, operation and maintenance expenditures) of a type or category which will facilitate compliance with national primary drinking water regulations applicable to the system under section 1412 or otherwise significantly further the health protection objectives of the Act.

Projects to address SDWA health standards that have been exceeded or to prevent future violations of the rules are eligible for funding. These include projects to maintain compliance with existing regulations for contaminants with acute health effects (i.e., the Surface Water Treatment Rule, the Total Coliform Rule, and nitrate standard) and regulations for contaminants with chronic health effects (i.e., Lead and Copper Rule, Phases I, II, and V rules, total trihalomethanes, etc.)

Projects to replace aging infrastructure are also eligible if they are needed to maintain compliance or further the public health protection goals of the Act. Examples of these include projects to:

- Rehabilitate or develop sources (excluding reservoirs, dams, dam rehabilitation and water rights) to replace contaminated sources;
- Install or upgrade treatment facilities, if the project would improve the quality of drinking water to comply with primary or secondary standards;
- Install or upgrade storage facilities, including finished water reservoirs, to prevent microbiological contaminants from entering the water system; and,
- Install or replace transmission and distribution pipes to prevent contamination caused by leaks or breaks in the pipe, or improve water pressure to safe levels.

Projects to consolidate water supplies-for example, when individual homes or a public water supply is contaminated, or the system is unable to maintain compliance for financial or managerial reasons-are eligible for DWSRF assistance.

B. Land acquisition

Land is eligible only if it is integral to a project that is needed to meet or maintain compliance and further public health protection. In this instance, land that is integral to a project is only the land needed to locate eligible treatment or distribution projects. In addition, the acquisition must be from a willing seller.

C. Planning and design of a drinking water project

The DWSRF may provide assistance for the costs of project planning and design (e.g., costs for consulting engineering services) as a component of a loan for construction.

D. Phasing of a drinking water project

To make construction and/or funding more manageable, a project may be divided into separately-funded phases or segments, at the option of the sponsor. However, to be DWSRF-eligible, any such phase or segment must be of reasonable size and scope; must feasibly address a water quality, public health or compliance deficiency; and, when constructed, must have the capability of being placed into immediate full operation, i.e., without its full operation being dependent on a subsequent project phase or segment or other outside operation yet to be completed. After a given project phase is funded, subsequent phases must stand separately in competing with other projects for priority list ranking in later fiscal years.

E. Restructuring of systems that are in noncompliance or that lack the technical, managerial and financial capability to maintain the system

The DWSRF may provide assistance to an eligible public water system to consolidate/connect with another public water system(s) only if the assistance will ensure that the system returns to and maintains compliance with SDWA requirements (section 1452(a)(3)(B) of the SDWA).

If the system does not have the technical, managerial, and/or financial capability to ensure compliance, or is in significant noncompliance, the system may receive assistance only if (1) the assistance will ensure compliance, or (2) the owner or operator of the system agrees to undertake appropriate changes in operations. These changes include consolidation or management changes that will ensure that the system has the technical, managerial, and financial capability to ensure and maintain compliance with SDWA requirements. DHEC may require the submission of a business plan as part of the preliminary engineering report for a project.

IV. Projects Not Eligible for Funding

The DWSRF will not provide funding assistance for the following projects and activities:

- Dams, or rehabilitation of dams;
- Reservoirs, except for finished water reservoirs and those reservoirs that are part of the treatment process and are located on the property where the treatment facility is located;
- Laboratory fees for monitoring;
- Operation and maintenance expenses;

- Projects needed mainly for fire protection;
- Projects for systems that lack adequate technical, managerial and financial capability, unless assistance will ensure compliance;
- Projects for systems in significant noncompliance, unless funding will ensure compliance;
- Projects primarily intended to serve future growth;
- Refinancing of existing debt;
- Purchase price of another water system; and
- Projects that would not result in the consolidation or regionalization of water systems when consolidation or regionalization is the most feasible alternative.

A. Lack of technical, managerial and financial capability

The DWSRF may not provide any type of assistance to a system that lacks the technical, managerial or financial capability to maintain SDWA compliance, unless the owner or operator of the system agrees to undertake feasible and appropriate changes in operation or if the use of the financial assistance from the DWSRF will ensure compliance over the long-term (section 1452(a)(3)(B)(I) of the SDWA).

B. Significant noncompliance

The DWSRF may not provide assistance to any system that is in significant noncompliance with any national drinking water regulation or variance unless the State conducts a review and determines that the project will enable the system to return to compliance and the system will maintain an adequate level of technical, managerial and financial capability to maintain compliance (section 1452(a)(3)(B)(I) of the SDWA).

C. Growth

The DWSRF cannot provide assistance to finance the expansion of any drinking water system solely in anticipation of future population growth (section 1452(g)(3)(C) of the SDWA). However, assistance may be provided to address population growth expected to occur over the useful life of the facility to be funded. In determining whether or not a project is eligible for assistance, DHEC will determine the primary purpose of the project. If the primary purpose is to supply or attract growth, the project is not eligible to receive DWSRF funds. If the primary purpose is to solve a compliance or public health problem, the entire project, including the portion necessary to accommodate a reasonable amount of growth over its useful life, is eligible.

V. Identifying and Ranking Drinking Water Priorities

In general, eligible Drinking Water SRF projects are first grouped into categories according to their relative importance with respect to SDWA requirements. Within categories, the projects are evaluated according to regionalization/consolidation considerations, affordability, and size of community. At each tier of the ranking process, a numeric value is determined, and ultimately a

project is assigned a total point value. The point system is not intended to give a unique value to each project, but rather rank projects according to relative importance. Please note that periodic reevaluation of program goals may change South Carolina's water quality priorities. Such changes may modify the ranking of projects on the State's comprehensive list of potential DWSRF projects.

A. Priority Categories

Projects eligible for assistance will be divided into nine categories. Projects listed in Category 1 receive the highest priority for funding, and those in Category 9 the lowest. These categories reflect the major ranking feature of the system.

1. Category # 1

Projects which will correct significant non-compliance problems, as defined by the EPA, with primary maximum contaminant levels or treatment techniques which pose an acute risk to public health (i.e., microbial, nitrate, nitrite and surface water treatment rule). For the purpose of this ranking system, a public water system which was determined to be in significant non-compliance as of April 1 of the previous fiscal year will be considered for ranking within this category. Category 1 projects will receive a numeric ranking value of 90 points.

2. Category # 2

Projects which will correct non-compliance problems which are not considered to be "significant" as defined by the EPA and any identified problems-such as groundwater under the direct influence, leaking water lines, low pressures [<20psi], insufficient reliable capacity [e.g., one well serving >50 taps or demand exceeds reliable capacity], and treatment design deficiencies-which pose an acute risk to public health. Category 2 projects will receive 80 points.

3. Category # 3

Projects which will correct significant non-compliance problems, as defined by the EPA, with primary maximum contaminant levels or treatment techniques which pose a chronic risk to public health (i.e., synthetic organic contaminants, inorganic contaminants other than nitrate and nitrite, radionuclides and the lead and copper rule). For the purpose of this ranking system, a public water system which was determined to be in significant non-compliance as of April 1 of the previous fiscal year will be considered for ranking within this category. Category 3 projects will receive 70 points.

4. Category # 4

Projects which will correct non-compliance problems which are not considered to be "significant" as defined by the EPA and any identified problems-such as systems exceeding the lead and/or copper action levels-which pose a chronic risk to public health. Category 4 projects will receive 60 points.

5. Category # 5

Projects serving existing residences on private wells which address actual public health problems associated with aquifer contamination where primary drinking water standards have been or are expected to be exceeded. For example, the groundwater in an area which is utilized by a number of existing residences on private wells is contaminated with a synthetic organic chemical, or contains a naturally occurring contaminant which exceeds the primary drinking water standards. Such projects will be limited in scope to the specific geographic area affected by the contamination. Category 5 projects will receive 50 points.

6. Category # 6

Projects to correct a public water system's non-compliance with a secondary maximum contaminant level(s). Category 6 projects will receive 40 points.

7. Category # 7

Projects necessary to ensure continued compliance with the State Safe Drinking Water Act and State Primary Drinking Water Regulations (i.e., replacing or rehabilitating infrastructure before it becomes a non-compliance problem). Category 7 projects will receive 30 points.

8. Category # 8

Projects to relocate water lines or other drinking water facilities (i.e., tanks, pump stations, wells) necessitated by the relocation or widening of roadways by the South Carolina Department of Transportation or Local Government. Category 8 projects will receive 20 points.

9. Category # 9

Fluoridation Projects. These projects, while DWSRF-eligible, are considered to be less important than those in the other eight categories and will receive 10 points.

B. Regionalization/Consolidation

Potential drinking water projects are next evaluated based on whether or not the project will result in the consolidation or regionalization of water systems. Consolidation of water systems is when two or more separately managed water systems combine to form one system under one management structure. Regionalization occurs when two or more water systems interconnect for the purpose of utilizing a water source(s), in lieu of each system developing its own or additional water source(s), and each system retains its own identity under separate management. Consolidation/regionalization helps utilities stay in compliance with requirements of the SDWA and ensures compliance with state capacity development requirements. Projects resulting in the consolidation or regionalization of water systems are assigned 5 points, otherwise no points are assigned.

C. Affordability

Projects are next evaluated based on the greatest need on a per household basis. Those systems which have (in-city) rates where the current annual user charge, based on 6,000 gallons per month, exceeds a certain target percentage of the median household income (MHI) will receive the preferred ranking. For purposes of this ranking system, this target percentage will be referred to as the level of effort (LOE). The LOE for FY 2003 is 1.10%. The LOE will increase each fiscal year by 0.05%, such that the LOE for FY 2004 will be 1.15%, that for FY 2005 will be 1.20%, and so on until new income figures are available from the 2010 census. Currently, municipal projects are ranked using their city's 2000 MHI and projects for other entities are ranked using the applicable county 2000 MHI. An eligible sponsor may obtain the MHI for its actual service area from the Office of Research and Statistics, State Budget and Control Board. If the sole beneficiary of a project is a municipality, but the project sponsor is another entity, the MHI of the municipality to be served may be used in lieu of the sponsor's MHI. Projects with an LOE exceeding that fiscal year's target LOE are assigned 5 points, otherwise no points are assigned.

D. Small-Community Bonus

Finally, projects are evaluated based on their community population. Heretofore, the DWSRF priority system, in accordance with Section 1452(a)(2) of the SDWA, gave consideration to small water systems (systems serving a population of 10,000 or less) as part of the bypass process. The new DWSRF ranking system, for the first time, will in addition assign numeric ranking points based on population. A project serving a population of 3,300 or less is assigned a numeric value of 10 points. A project serving a population of 3,301 through 10,000 is assigned 5 points. No small-community "bonus" points are assigned to projects serving populations greater than 10,000.

VI. Summary of Points System Used to Establish Project Priority Ranking

The following table summarizes the numeric ranking system for prioritizing potential DWSRF projects:

	Priority Ranking Criteria	If Yes, assign/add the following point value
1	What SDWA Section 1452(b)(3) priority category applies to this DWSRF project? (Also see Section II(A) above). Assign the point value for the applicable category as outlined in the next column.	Category 1—90 points Category 2—80 points Category 3—70 points Category 4—60 points Category 5—50 points Category 6—40 points Category 7—30 points Category 8—20 points Category 9—10 points
2	Will the project result in regionalization or consolidation of water systems?	5
3	Does the Level of Effort (LOE) for the project exceed the target percentage?	5
4	Will the small-community project serve a population of 3,300 or less?	10
5	Will the small-community project serve a population between 3,301 and 10,000?	5

VII. Developing and Updating the State's Comprehensive Priority List of Projects

In order for a project to be considered for funding from the DWSRF, it must appear on the State's comprehensive priority list of projects. To be included in this list, an eligible project sponsor must complete a project questionnaire supplied by DHEC. A copy of the questionnaire may be found on DHEC's website at <http://www.scdhec.net/water/forms/d-3561.pdf>. (A project sponsor may submit a completed questionnaire to the SRF Section of DHEC's Bureau of Water at any time. Once the questionnaire is received, DHEC staff will evaluate the project based on the ranking system discussed above and assign the project a numeric score. The project will then be added to the comprehensive priority list of projects. DHEC will maintain an updated list of projects on its website: <http://www.scdhec.net/water/html/srf.html>. Those projects with the same numerical score will be ranked based on the date the project questionnaire is received.

VIII. Selecting Projects for Funding

DHEC will prepare an annual *Intended Use Plan* (IUP) that will describe how the State intends to use the funds in the DWSRF for the year and how those uses support the objectives of the SDWA. The IUP will include a list of projects selected from the comprehensive priority list for

funding during the next year. Once the IUP has been drafted, notice will be given to the public that the draft IUP is available for review and comment for a period of at least 30 days. Once the comment period has ended DHEC will review any comments received and make changes to the IUP as appropriate. Both the draft and final IUPs may be found on DHEC's website: <http://www.scdhec.net/water/html/srf.html>